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071616Z Mar 04

C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 001722

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E.O. 12958: DECL: 03/07/2014

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SUBJECT: (C) JORDANIAN BANKERS CITE UNEXPLAINED,
LAST-MINUTE REVERSALS IN IRAQ

REF: AMMAN 1453

Classified By: CDA DAVID M. HALE. REASONS: 1.5 (B,D).

1. (C) SUMMARY: At the request of respective bank managers, the Ambassador met separately with representatives of the Export & Finance Bank (EFB) and the Arab Bank. Both banks raised concerns that they were being treated arbitrarily by Iraqi authorities and questioned how they might resolve their problems. EFB had concluded an agreement in early January to acquire 49 percent of the National Bank of Iraq, only to see a decree published some three weeks after the fact being applied retroactively to annul the deal. Arab Bank PLC (AB) was invited by the CPA to consider re-establishing its presence in Iraq by applying for a branch license. All indications were that Arab Bank was among four finalists recommended for the licenses, until the Central Bank of Iraq (CBI) announced only three banks had been approved. The leadership of the two banks has expressed concern at these sudden, inexplicable reversals. This report summarizes what they say about their situation. END SUMMARY.

Export & Finance Bank Deal: Moving the Goalposts

2. (C) Ali K. Al-Husry, Chairman of the Board and CEO of the Export & Finance Bank (EFB), called on the Ambassador February 29 to detail a strategic partnership agreement EFB had signed January 4 with the National Bank of Iraq (NBI) whereby EFB acquired 49 percent of NBI's paid up capital in return for USD 7.3 million. The agreement gave EFB management control of NBI, according to the bank's proprietary chronology that Embassy is faxing to NEA/ARN (protect). Al-Husry said that the deal had been approved by the Central Bank of Iraq and also by the Central Bank of Jordan. After the deal was consummated, the Iraqi Finance Minister issued a letter on January 28 declaring all such agreements void unless they had the prior approval of the Governing Council Finance Committee. The letter explicitly stated the decree was retroactive, applying to any agreement made "before this date."

3. (C) Al-Husry said that he wanted to know where EFB stood. Iraq needed an improved banking sector, he noted, and two CPA advisors had encouraged EFB to enter into the arrangement: "They were very, very keen, very supportive," he added. The sudden reversal sent a mixed message to investors, he noted. Other potential investors in the banking sector will ask about what will happen to them, he averred, and they will wonder what to do in an environment without a finalized legal situation. Al-Husry said that he had his suspicions about who upset the apple-cart but was careful not to make any allegations about the source of EFB's problems in the GC, although he said that it was self-evident to anybody who understood the situation.

4. (C/NF) Al-Husry revealed that his father-in-law had been the Government of Jordan official to issue the order to close Ahmed Chalabi's Jordan-based Petra Bank in the early 1990s. (NOTE: Chalabi was convicted in absentia in Jordan's courts for bank fraud in 1992 in connection with the failure of Petra Bank. END NOTE.)

5. (C) Al-Husry wanted to know what EFB could do. He said that he had informed GOJ Foreign Minister Marwan Muasher and that Muasher had advised him to brief the Ambassador while Muasher would inform King Abdullah. He stressed that he did not wish to cause friction in Iraq, rather he wanted to proceed with the bank partnership in accordance with the signed agreement.

Arab Bank Invited to Return: "If not Welcome, Why go?"

6. (C) Abdel Hamid Shoman, Deputy Chairman and CEO of Arab Bank PLC called on the Ambassador March 2 to recount the history of Arab Bank and the CPA last fall. At the time, he said, AB was not contemplating moving into Iraq so quickly but had considered the move as a distant prospect in the

future. One compelling reason for staying out was the fact that AB's assets had been seized when the Iraqi regime nationalized AB in 1963-64 and AB had never been compensated, he said. However, a letter from CPA Administrator L. Paul Bremer to King Abdullah II and a visit from the CPA's Peter McPherson and Tom Foley had convinced AB to send a team to Baghdad. The AB group met with the CBI and other parties, Shoman recounted, to determine if the Arab Bank would be welcome. If they did not want AB to go in, that was fine said Shoman. "If we are not welcome, why go?"

Reputation on the Line

17. (C) AB filed the application with what it believed was a strong proposal. When only three banks were chosen, they were surprised that Arab Bank was not among them, said Shoman. Shukry Bishara, COO of the bank, added that Arab Bank had even received unofficial congratulations from individuals in Baghdad for being one of four finalists. "At the eleventh hour, our name was pulled out." Bishara stated that he later learned CG member Ahmed Chalabi "stood in the way" of Arab Bank's obtaining a license. Bishara said that he believed Chalabi acted as he did because of his poor relations with Jordan. The decision was not good for the reputation of Arab Bank, he continued, so AB made a decision to see what it could do to continue advancing its application for a license. Hence the subsequent letters to the CPA and the CBI (Ref), he concluded. Because Arab Bank was asked to, it applied, interjected Shoman. "Now we are told 'No' though we are among the best banks that applied," said Shoman.

18. (C) Bishara added that AB accedes to the "highest level" of international banking conduct. "AB respects both the spirit and the letter of the law on money laundering," he noted, adding that AB had long adopted stringent criteria regarding "know your customer" guidelines. Regarding transactions in the Gulf and Jordan, AB has a clean reputation, he said. AB regularly turned away suspicious-looking transactions, he noted. Giving another example related to Iraq, he said that AB had refused to conduct transactions if they appeared to be outside the oil-for-food (OFF) protocol when that UN program was in effect. Washington is aware of Arab Bank's credentials because Arab Bank New York offices are subject to the U.S. system, he continued. Since opening in the U.S. in 1981, the Office of the Comptroller of the Currency (OCC) has regularly visited the bank, he said, and the bank is guided by OCC rules.

19. (C) Regarding recent Israeli Defense Force raids on AB's Palestinian bank branches, Shoman said that the AB was willing to work with the Palestinian Finance Minister to block any transactions for those designated as terrorists through regular mechanisms. Furthermore, AB was willing to share with the Palestinian FinMin all of its bank account records for the last two years, he said. For payments greater than USD 10,000 the bank followed a policy of reporting the amount, holding the money, and paying it out only after it was declared to be clean by authorities, he noted.

AB Follows Standards, Will Cooperate

10. (C) When asked if AB ever had any of the entities listed by the UN (UNSCR 1267 committee) on its account records, Bishara responded that not even CitiBank could avoid a few accounts like that slipping through. But the bank did not knowingly tolerate such accounts. By intent, standards, and procedures of governance the Arab Bank was taking every possible step to avoid abuses, he said. Shoman said that the Arab Bank would be cooperative and respond to questions.

11. (C) In both cases, the Ambassador said that he would report what he had heard from the bank leaders and would see what might be done.

HALE